

Message Text

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SUBJECT: JAPAN STUDIES SHIP SCRAPPING TO BOLSTER SHIPBUILDING
INDUSTRY

1. BEGIN SUMMARY. SHIPBUILDING HAS TRADITIONALLY BEEN ONE OF
FOUR MAJOR INDUSTRIES IN KYUSHU'S PREDOMINANTLY AGRICULTURAL
ECONOMY. DROP IN TANKER ORDERS HAS SERIOUSLY HURT KYUSHU SHIPYARDS
AND KYUSHU-YAMAGUCHI ECONOMIC FEDERATION (KYUKEIREN) HAS DRAFTED
PROPOSAL TO UTILIZE THESE FACILITIES FOR SHIP SCARPPING. IF
PLAN IS FULLY IMPLEMENTED, KYUKEIREN FEELS JAPAN COULD BECOME
SELF-SUFFICIENT IN SCRAP, BUT GOVERNMENT SUBSIDIES WILL BE NEEDED.
RECENTLY FORMED COMPANY HAS PURCHASED SHIP AND WILL CONTRACT WITH
MITSUBISHI'S NAGASAKI YARD FOR SCRAPPING. COST DATA FROM THIS
TEST CASE WILL BE USED TO FORMULATE SUBSIDY REQUEST WHICH
KYUKEIREN HOPES TO GET IN MINISTRY OF TRANSPORTATION BUDGET
REQUEST FOR JFY 1977. KYUSHU SHIPYARDS NEED HELP DESPERATELY AND
GOVERNMENT IS EXPECTED TO BE UNDER HEAVY PRESSURE TO GRANT SUBSIDY.
END SUMMARY.

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2. THE SHIPBUILDING INDUSTRY, WHICH NORMALLY ACCOUNTS FOR

10 PERCENT OF KYUSHU'S INDUSTRIAL PRODUCTION, WAS PARTICULARLY HARD HIT BY THE OIL SHOCK. ALTHOUGH SHIPBUILDING COMPANIES AS A WHOLE ARE HEALTHY, THE YARDS IN KYUSHU, SUCH AS MITSUBISHI'S MILLION TON DRYDOCK AT NAGASAKI, WERE DESIGNED TO PRODUCE VERY LARGE CRUDE CARRIERS AND CANNOT BE READILY CONVERTED TO PRODUCTION OF OTHER TYPES OF SHIPS. THERE IS LITTLE CHANCE THE LARGE TANKER BUSINESS WILL RECOVER IN THE NEAR FUTURE AND THE MITSUBISHI YARD AND SASEBO HEAVY INDUSTRY YARD ARE FACED WITH THE PROSPECT OF HAVING TO DISMISS LARGE NUMBERS OF WORKERS IF ALTERNATIVE WORK CANNOT BE FOUND. NAGASAKI AND SASEBO ARE VERY DEPENDENT ON THE SHIPBUILDING INDUSTRY AND LARGE SCALE DISMISSALS WOULD HAVE SERIOUS EFFECTS ON THESE TWO CITIES ALREADY HIT BY THE GENERAL ECONOMIC SLUMP.

3. THE KYUSHU-YAMAGUCHI ECONOMIC FEDERATION (KYUKEIREN) FORMED A COMMITTEE LAST YEAR TO STUDY THE PROBLEMS IN THE SHIPBUILDING INDUSTRY AND DRAFTED A PROPOSAL TO USE IDLE SHIPBUILDING FACILITIES IN KYUSHU FOR SCRAPPING SHIP. THE IRON AND STEEL INDUSTRY IN JAPAN DEPENDS HEAVILY ON IMPORTED SCRAP, BUT WIDE PRICE SWINGS AND THE PROSPECT OF FUTURE EMBARGOS LIKE THAT IMPOSED BY THE U.S. SEVERAL YEARS AGO HAS MADE FINDING ALTERNATIVE SUPPLIES A HIGH PRIORITY. KYUKEIREN SAYS BOTH THE SCRAP PROBLEM AND THE SHIPYARD EMPLOYMENT PROBLEM COULD BE ALLEVIATED BY USING IDLE SHIPYARD FACILITIES FOR SCRAPPING SHIPS, BUT HIGH WAGE COSTS IN JAPAN RULE OUT SCRAPPING WITHOUT A GOVERNMENT SUBSIDY.

4. THE KYUKEIREN PROPOSAL CALLS FOR THE ESTABLISHMENT OF A PUBLIC COMPANY, 50 PERCENT OWNED BY GOVERNMENT, AND 50 PERCENT BY SHIPBUILDING AND STEEL COMPANIES. THIS COMPANY WOULD BUY SHIPS AND SELL SCRAP. SCRAPPING WOULD BE CONTRACTED TO SHIPYARDS AND THE SCRAP SOLD TO THE STEEL INDUSTRY AT A FIXED PRICE. THE GOVERNMENT WOULD SUBSIDIZE ANY LOSSES INCURRED BY THE COMPANY AND AID THE SHIPBUILDING INDUSTRY'S CONVERSION TO A SCRAP AND BUILD SYSTEM.

5. KYUKEIREN CALCULATES THEIR PROPOSAL WOULD REQUIRE AN ANNUAL GOVERNMENT SUBSIDY OF 10-20 BILLION YEN FOR THE FIRST 10 YEARS. HOWEVER, IF FULLY IMPLEMENTED, THE PLAN WOULD UTILIZE THE SURPLUS LABOR IN THE SHIPBUILDING INDUSTRY, MAKE JAPAN SELF-SUFFICIENT IN SCRAP AND ELIMINATE FLUCTUATIONS IN SCRAP PRICES. IT WOULD ALSO PROMOTE THE TRANSFORMATION OF THE SHIPBUILDING INDUSTRY TO A

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SCRAP AND BUILD SYSTEM AND DISPOSE OF MANY OLD ABANDONED SHIPS THAT ARE A GROWING NUISANCE IN JAPAN.

6. IN AUGUST OF LAST YEAR, 59 IRON AND STEEL COMPANIES FORMED THE SHINTETSUGEN KAIHATSU K.K. (NEW IRON RAW MATERIAL DEVELOPMENT COMPANY) IN TOKYO WITH SABURO TANABE, MANAGING DIRECTOR OF NIPPON STEEL CORP., AS PRESIDENT. THIS FIRM HAS PURCHASED THE NIKKO MARU, A 20-YEAR OLD 35,000 TON TANKER, AND WILL SIGN A CONTACT

THIS MONTH WITH MITSUBISHI'S KOYAGI YARD IN NAGASAKI TO DO THE SCRAPPING. THE SCRAPPING IS EXPECTED TO START IN AUGUST AND TAKE ABOUT 4 MONTHS. THE NEW COMPANY EXPECTS TO BREAK EVEN ON THE SCRAPPING OF THE NIKKO MARU, BUT KYUKEIREN DOUBTS FURTHER SCRAPPING CAN BE DONE WITHOUT A GOVERNMENT SUBSIDY.

7. THE NIKKO MARU IS CONSIDERED A TEST CASE AND THE RESULTS WILL BE ANALYSED CAREFULLY. IF THE STUDY SHOWS THE PLAN IS FEASIBLE, A SUBSIDY REQUEST WILL BE MADE TO THE GOVERNMENT. THE MINISTRY OF TRANSPORTATION FAVORS THE KYUKEIREN IDEA, SINCE SCRAPPING WILL PROVIDE BADLY NEEDED WORK FOR SHIPBUILDERS AND SUB-CONTRACTORS. MOT HAS ALLOCATED 2.9 MILLION YEN THIS FISCAL YEAR FOR A STUDY OF THE PROPOSAL. WHILE KYUKEIREN IS ENCOURAGED BY THIS FAVORABLE REACTION, IT FEARS IT WILL TAKE TWO YEARS FOR THE PROJECT TO BE FORMALLY INCLUDED IN THE MOT BUDGET AND 1978 IS ONLY A YEAR "BEFORE ALL THE SHIPYARD DOCKS BECOME EMPTY". KYUKEIREN PLANS TO START TALKS WITH THE CENTRAL GOVERNMENT IN JUNE, WHEN WORK ON NEXT YEAR'S BUDGET BEGINS, IN HOPES OF GETTING THE PROJECT FUNDED NEXT YEAR.

8. COMMENT. THERE IS NO DOUBT THAT SHIPYARDS IN KYUSHU DESPERATELY NEED TO FIND A SUBSTITUTE FOR LOST TANKER ORDERS TO KEEP WORKERS EMPLOYED. IF THE TEST SCRAPPING IN NAGASAKI PROVES KYUKEIREN'S COST ESTIMATES ARE EASONABLE, THE GOVERNMENT WILL BE UNDER HEAVY PRESSURE TO GRANT THE SUBSIDY TO FORESTALL LARGE SCALE LAYOFFS IN NAGASAKI AND SASEBO. SHIPBUILDING COMPANIES SEE THIS ONLY AS A STOPGAP MEASURE AND AN UPTURN IN THE TANKER MARKET WOULD SEE THE PLAN DIE A QUIET DEATH, AS YARDS RETURN TO SHIP-BUILDING, THE TYPE OF WORK THEY DO MOST EFFICIENTLY.
END COMMENT.
RICHARDSON

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